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E.O. 12958: DECL: 10/05/2018
TAGS: EFIN ECON PREL QA
SUBJECT: A SAFE HARBOR IN THE GLOBAL FINANCIAL STORM -- FOR NOW

Classified By: Ambassador Joseph E. LeBaron, for reasons 1.4 (b) and (d).

(C) KEY POINTS

-- Qatar thus far has been spared the negative effects of the global liquidity crisis, according to local experts and the Finance Minister. Banks in Qatar assessed heightened risk several months ago and began limiting their exposure at that time.

-- The Finance Minister told Ambassador that Qatar had also been making cross-border withdrawals from banks in Europe, the United States, and elsewhere for several months. Only "small deposits" remained, he said.

-- Negative impacts of the current crisis are unlikely to materialize in Qatar before 2009.

-- Qatari investors will exercise caution in making new U.S. real estate investments in the current climate.

(C) COMMENT

-- We do not know to what extent Qatari regulators told local banks to take precautionary steps when warning signs appeared some months ago. The CEO of Citibank-Qatar told us he does not give Qatar's regulators much credit for avoiding a liquidity and credit crisis, whereas Qatar's Minister of Finance does.

-- Qataris will be slow to invest in the U.S. real estate or financial markets until the global financial crisis eases.

-- On the whole, the Qatari leadership can be considered risk adverse, both in its external and internal policies.

-- As a tiny state sitting on enormous energy reserves, Qatar -- the ruling Al Thani family, to be more precise -- pursues policies and practices designed to reduce and control all political and economic risks to its 140-year grip on power.

END KEY POINTS AND COMMENT.

¶1. (SBU) The consensus of government and private experts with whom we have spoken in recent days is that Qatar has been largely spared any negative effects, for now, in the global liquidity crisis. Citibank Qatar CEO Farhan Mahmoud told P/E Chief October 6 that there was a spill-over effect in the Gulf from the ongoing financial turmoil in the United States and elsewhere, but that most of the liquidity problems were in Dubai, not Qatar. Mahmoud said going back

several months, when banks in the region were expecting Gulf currency revaluations, liquidity at financial institutions was higher than usual. When the expected currency changes did not occur, money left the region, leaving behind an overall liquidity shortfall.

¶2. (SBU) The heart of the problem in the region, according to Mahmoud, is not financial turbulence in the West, but the aftermath of pre-positioning by banks and investors for the currency revaluations. Asked specifically for his assessment of the impact in Qatar from the market turmoil in the West of late, Mahmoud said he "had the sense that there isn't anything significant in terms of counterparty exposures" by Qatari banks. Going back 8-9 months, Mahmoud said banks in Qatar perceived there were storm clouds on the horizon in the U.S. and started to assess their exposure to potential risk. In cases where there were perceived risks, banks took action to limit it.

¶3. (SBU) Mahmoud stated that "Qatar is definitely better off than the UAE, where there was much real estate speculation." Asked if the difference was due to the regulatory environments in both countries, he attributed it to the "different stages of economic development." He concluded by saying that Qatar could face risks down the road if the global financial situation worsens, but for now any negative impacts were unlikely to materialize here before 2009.

¶4. (C) Felix Kwan, senior director for supervision at the Qatar Financial Center, separately told P/E Chief October 6 that Qatar's banks currently face

"almost no exposure" to financial sector difficulties in the U.S. and Europe. Thomas Roy, an analyst at Qatar National Bank, concurred with Kwan's assessment, adding that the bigger concern from a Qatari perspective is the overall climate for real estate investment. Given the financial difficulties in the U.S., he said Qatari investors would be slow to invest in real estate or financial sectors for "some time."

¶5. (C) Finance Minister Yousef Kamal told Ambassador September 30 that Qatar's banks were in good shape. He explained that Qatari banks generally maintained limited holdings in many banks so as to spread out the risk from a downturn. When Qatar's financial regulators, according to the Minister, perceived growing risks in the global financial sector a few months ago, Qatar's banks took additional steps, beyond what had already been a policy of caution, to further reduce exposure to risk. As a result, Kamal observed, Qatar is in much better shape than its neighbors. Asked about potential Qatari investment in the U.S. real estate and financial sectors, Kamal predicted local investors would exercise great caution in the near future.
LeBaron